

Headline Series

NUMBER 71

SEPTEMBER-OCTOBER 1948

HEADLINE SERIES, NO. 71, SEPTEMBER 20, 1948, PUBLISHED BIMONTHLY BY THE FOREIGN POLICY ASSOCIATION, INCORPORATED, 22 EAST 38TH STREET, NEW YORK 16, N. Y. THOMAS K. FORD, EDITOR. SUBSCRIPTION RATES \$2.00 FOR 6 ISSUES. SINGLE COPIES, 35¢. ENTERED AS SECOND CLASS MATTER AUGUST 19, 1943, AT THE POST OFFICE AT NEW YORK, N. Y., UNDER THE ACT OF MARCH 3, 1879. COPYRIGHT, 1948, BY FOREIGN POLICY ASSOCIATION, INCORPORATED. PRODUCED UNDER UNION CONDITIONS AND COMPOSED, PRINTED, AND BOUND BY UNION LABOR. MANUFACTURED IN THE UNITED STATES OF AMERICA.



SOCIALISM IN WESTERN EUROPE

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EUROPE'S TREND TOWARD NATIONALIZATION

by Herbert Heaton

1. THE SWING TO THE LEFT

It used to be the fashion—and still is in some quarters—to lay the blame for the war on the doorstep of “capitalism.” Businessmen, bankers, investors, and armament makers, lusting for private profit, were the chief devils. They were said to pursue policies and to provoke their governments into actions that made armed conflict inevitable. They were “warmongers.”

If this were true, then capitalism would be a very shortsighted system and its high priests—or high demons—would be very stupid fellows. For two world wars have shown that Mars is no respecter of privately owned and operated enterprise. In time of war, capitalists may suffer destruction of their assets, dislocation of their costs, prices, and markets, and an increased burden of taxes. They may even be put out of business if circumstances, discontent, and the triumph of left-wing groups lead the state to take over their property and to run it henceforth as a government undertaking.

World War I produced this result chiefly in Russia. The Communists, once their position was secure, embarked on policies that eventually eliminated individual ownership and operation of farms, abolished private enterprise and investment in industry, and subjected the whole economy to state ownership and direction.

World War II caused no earthquake comparable to the Russian Revolution, but it was followed by tremors felt in most parts of Europe. The eastern European countries that passed under Communist influence set out to remodel their industrial organization, and in part their rural society, on the Russian pattern. They perhaps began by seizing only the large firms and estates. But soon they extended their hold to include many smaller ones. This happened in Poland, Czechoslovakia, Rumania, Hungary, Bulgaria, and Yugoslavia.

The day of private investment, enterprise, and profit-seeking has thus ended beyond the iron curtain in the fields of medium or large-scale industry, commerce, mining, finance, and transportation. The petty handicraftsman or trader and the cooperative societies of peasants or consumers may be allowed to carry on under strict control. The fate of the individual peasant farmer is unsure. The early reforms cut the large estates into small farms. But plans are already being made in Hungary for merging all individual holdings into "collective farms," as was done in Russia.

In western Europe, private capitalism has also lost ground, though much less. And here the procedure has been fully democratic. In liberated France, for example, the parties that formed the first government agreed on one thing at least. They all believed that some branches of the French economy must be transferred from private to public hands, for reasons which we shall examine later. The postwar Norwegian government offers another democratic example. It has set up some new industries, bought stock in old ones, taken over German assets in aluminum, chemical, and hydroelectric firms, nationalized the central bank, and put up half the capital for an iron and steel plant.

The greatest change in the west took place in Great Britain. In a general election held as soon as possible after V-E Day, the Labor party won a resounding victory. British voters repudiated the Conservative party, which had controlled the House of Commons since 1931. Out of office went Winston Churchill and Anthony Eden, in came Clement Attlee and Ernest Bevin.

In international affairs this change of leaders mattered little, since foreign policy was generally bipartisan. But on domestic economic issues it meant much. For Labor had asked and received a clear-cut, overwhelming mandate. The Labor platform promised to transfer some vital parts of the country's economic equipment to public ownership—in other words, to “nationalize” or “socialize” them (in practice the words tend to mean the same thing). Rarely has any government tried to honor its pledges so promptly or so vigorously as has the Labor ministry since it assumed power in July 1945.

As a result of all these developments, a substantial part of Europe's economy has passed into the hands of the state. It would be difficult to find coal miners, inland transportation workers, central bank clerks, producers of gas and electricity, or civilian airplane pilots who are working for private employers in western Europe. Farther east it would be hard to find any middle-sized or large private firms at all.

HOW IT LOOKS TO US

These inroads into private enterprise are quite contrary to our own ideas of what is economically proper. They make us feel—and look—like the parading soldier occasionally depicted by cartoonists. He is shown putting his right foot forward just at the instant when everybody else is advancing the left one. His admiring mother, wife, or sweetheart, standing on the sidewalk, exclaims, “Why, they're all out of step except Sam!” (or John or Jacques or Hans or whoever personifies the country that is doing something different from all the others).

All the world except us seems to have gone slightly or strongly toward the left, while we have moved perceptibly toward the right. This has perplexed some of us and angered others. Professor Horace Gray recently referred to “our harassed State Department officials, who are trying to ride a capitalistic horse in a predominantly Socialist circus.”

So far as eastern Europe is concerned, those officials can do

little except try to secure adequate compensation to Americans whose property has been nationalized. This may not be easy unless we happen to have possession of frozen funds belonging to a country and can insist that the compensation be paid as the price of our thawing them out. We hold about \$50,000,000 of frozen Yugoslav assets. Yugoslavia has nationalized industries in which Americans had invested about \$20,000,000. Marshal Tito has therefore agreed to pay the latter claims, since in return he can get his hands on the remaining \$30,000,000. For playing poker with the other countries beyond the iron curtain, we do not hold such good cards.

In our dealings with western Europe our policy has been threatened at times by outbursts of anti-Socialist sentiment or by Anglophobia in a new garb. When the loan to Britain was being discussed in 1946, some congressmen objected to providing funds which, in their opinion, would be used to finance British nationalization plans. During the debates on the European Recovery Plan in early 1948 loud voices were raised to demand that the nations receiving aid forswear any further steps along the road to public ownership. One candidate for the Republican presidential nomination talked occasionally in the same strain.

The Administration apparently regarded this demand as so threatening that Mr. Lewis Douglas, our ambassador to London, was called upon to speak out against it. He warned the House Foreign Affairs Committee that such a step would be "too much of an invasion of the right of free people to determine the sort of economic system under which they wanted to live." The State Department also thought it expedient to reassure Congress. In the sixteen countries which were to receive aid, it declared, "the socialists who advocate social planning and economic control, in contrast to competitive private enterprise, nevertheless believe firmly in the democratic process and the fundamental freedoms of speech, press, assembly, and worship, and in the rights and dignity of the individual. They are consequently among the strongest bulwarks against Communism."

STRINGS ON SOVEREIGNTY

In spite of such warning and assurance, Congress wrote into the Economic Cooperation Act conditions which the administrator might interpret as giving him power to ban nationalization. Then Mr. Hoffman, when he was appointed to that post, told the Senate Appropriations Committee that he probably would refuse to help the United Kingdom develop any industry which its government might hereafter begin to nationalize. By inference, he would withhold aid for similar purposes to any of the other fifteen countries in the European Recovery Program.

This statement was roundly denounced by British Laborites. It was welcomed by the Communists, however. For them it was proof of their contention that American aid would impair the sovereignty of the recipient nations. It provoked Blair Bolles, the Washington correspondent of the Foreign Policy Association, to ask in the *Bulletin* for May 21, 1948, "Will ECA [Economic Cooperation Administration] Seek To Check Nationalization in Europe?" Mr. Bolles' conclusion was that it probably would; that Mr. Hoffman's announcement amounted to American intervention in the relations between the political parties in Britain; and that "the use of an antinationalization policy in dealing with governments chosen in free elections by voters who favor public ownership could compound the present confusion in Europe rather than promote the purpose of the ERP."

The agreements actually reached, in late June and early July 1948 between the United States and the recipients of aid show no sign of dictating to other countries what their domestic economic policies must be. Nothing in the terms suggests even remotely that Britain's government or that of any other nation must modify or abandon the platform on which it was elected. Each country pledges itself, as it has done all through the discussion of the Marshall Plan, to "use its best endeavors," to "take all possible steps," and to "exert every effort" to strive for recovery. But, to quote Sir Stafford Cripps' description of the Anglo-American agreement, that document "makes it quite clear that His Majesty's

Government is the sole judge of how it shall use its best endeavors and as to what measures it shall adopt."

If these words mean what they say, and mean the same thing in Washington and London, the recipients of aid have accepted obligations. But there are "no strings on sovereignty." We have avoided the danger of tarnishing a generous and statesmanlike act by imposing humiliating terms. We have rejected the wrong road to win friends and influence people. Yet we may feel, in these days when our postwar boom makes private enterprise seem so sound and fruitful, that democratic nations which favor public enterprise have chosen unwisely.

In the following pages an attempt will therefore be made to discover why those nations have decided that the nationalization of some of their enterprises was wise, desirable, or necessary, and what, up to date, have been the results of their decision.

2. PUBLIC ENTERPRISE BEFORE WORLD WAR I

It may help our search if we begin by remembering that there is nothing historically abnormal or unusual about government enterprise. Or, to turn the statement around, that there is nothing historically sacred about private enterprise.

Governments have always been in business to some extent, just as they have always regulated the businesses of their people. The Pharaohs of Egypt and the priest-kings of Babylonia owned great estates and many workshops, ran banks, and traded at home and abroad. Ancient, medieval, and early modern cities were deeply involved in importing, storing, and selling grain. Venice in its prime ran great shipyards, owned a fleet of galleys, and operated a rope factory in order to be sure of getting a reliable product. Early modern states made many of the things needed by their armies and navies. Their kings and princes financed workshops to make the tapestries, porcelain, jewelry and other luxury products needed by their courts.

We usually think of the nineteenth century as one in which private enterprise had its greatest opportunity and took it to the full. This is true. Yet there were two other minor ways in which people got what they required. On the one hand, consumers in some lands banded together to form their own cooperative societies. These would supply them with food and other necessities at cost without profit. On the other hand, citizens called on local or central governments to undertake the provision of some goods and services.

In response to this call, the total quantity of public undertakings became substantial, though it was small when compared

with that of private enterprise. By 1914, according to one estimate, at least \$50,000,000,000—a lot of money in those days—had been invested by public bodies in various parts of the world. More than 12,000,000 employees—or more than the total number of people working on American farms at that time—were on public payrolls, excluding the army, navy, police, and similar classes.

FIELDS OF ENTERPRISE

The three largest fields of public enterprise were transportation, communication, and urban public utilities. Nearly half the world's railroad mileage was publicly owned and operated by fifty out of the seventy nations of the world. The United Kingdom, the United States, and France were the only important exceptions to the rule. But France had state railroads in its western rural regions. And even the United States operated nearly a thousand miles of track in Alaska. The construction and maintenance of roads and bridges had become a generally accepted public obligation. Inland waterways were usually under state care. The Kiel and Panama Canals were public property, but Suez remained in private hands.

In the field of communications, the postal service was everywhere a state undertaking. In most countries the post office also ran the telegraph service and in some it operated a savings bank. Private ownership of telephone systems was the exception, as later was the operation of radio broadcasting.

The third field for public enterprise included public health, street traction, water supply, lighting, and eventually housing. These were the services needed by the growing commercial or industrial towns and cities of the nineteenth century. In many places private firms took the first steps in supplying water, sewers, gas, electricity, streetcars, and cemeteries. For a long time private enterprise provided all the houses. In many other places some of this work was begun as a municipal project, while in still others the private ventures were sooner or later bought out by the city.

Municipal enterprise was not limited to the three chief fields,

CHIEF PUBLIC ENTERPRISES

1. TRANSPORTATION



BY 1900 MOST RAILROADS WERE STATE OPERATED EXCEPT IN
U. S., U. K., FRANCE, AND CANADA

2. COMMUNICATION



POSTAL SERVICE IS A PUBLIC SERVICE EVERYWHERE, RADIO
BROADCASTING IN MOST COUNTRIES

3. PUBLIC UTILITIES



WATER WORKS ARE ALMOST ALWAYS MUNICIPALLY OWNED,
GAS AND ELECTRICITY VERY OFTEN ARE.

of course. It was widespread and many-sided by 1914. It provided educational facilities of all kinds, sometimes including libraries, orchestras, and theaters. Its medical facilities were growing to include more hospitals, doctors, and nurses. It occasionally operated grocery stores, bakeshops, coalyards, drugstores, and restaurants. It was being pushed into the field of housing as higher building costs and heavier taxes made the construction of homes for rent unprofitable to the private builder.

Outside these main fields there was a motley of minor public enterprises. Land improvement by drainage, irrigation, or afforestation was undertaken by many states. In some countries minerals had remained state property. The Prussian government owned rich potash deposits. Its king, as proprietor of over three hundred mines, was probably the largest coal merchant in the world. State or municipal factories made every kind of article, ranging alphabetically from alcohol to woolen cloth. The American federal government was on its way to being the world's largest printer and publisher. The Ontario government in 1906 set up a Hydroelectric Power Commission that became one of the world's largest producers and distributors of electricity. Finally, publicly-owned institutions did a considerable part of the world's banking. In some countries, such as Switzerland, the state handled a large amount of insurance.

THE SOCIALIST PROMISE OF HEAVEN

Very few of the enterprises described above were the result of Socialist pleas or pressures. Since at least 1830 men who called themselves "Socialists"—or sometimes "Communists"—had been criticizing and condemning certain aspects of capitalism. They were not alone. Others, who did not wear such labels, saw many evils in the economic or social conditions of the urban industrial order that was growing up around them.

The Socialists found the roots of society's ills in the private ownership and management of the "means of production, distri-

bution, and exchange.” Private ownership, they contended, bred cutthroat competition, an unbridled scramble for profit, heavy tolls for rent and interest, unequal distribution of income and political power, and a dreary life for the propertyless mass of the population.

Having made this diagnosis, their next step was easy. If private property produced all the ills, then its opposite would produce nothing but good. Property needed for production should be owned by all, by society, by the state, by the producers, or in some other sort of common possession. Then cooperation would replace competition, production would be for use rather than for profit, and the enjoyment of the product would be more widely and evenly spread. Poverty, slums, long hours of labor, idle rich and idle poor, inferior goods, high prices, class strife, domestic political conflicts, even war—all would disappear. Society would emerge from something that seemed like a hell on earth into the nearest approximation to heaven that the nineteenth century could imagine.

Some early Socialists believed that this heaven could be reached if the faithful left the capitalist wilderness and created little oases of common property in model communities. Others thought it might be won by violence, by a paralyzing general strike, or by some upheaval that would be a worthy descendant of the French Revolution. Both these methods proved futile, discrediting their advocates.

When the Socialist movement really began to make headway it was along the road of political action. The right to vote for members of a legislature was becoming widespread after about 1870. Socialists therefore set out on the laborious task of building up their own political parties. They looked forward to the day when the conquest of a majority of seats at some election would give them power to pass laws. Then they could transfer at least the more important sectors of the economy from private to public hands.

SOCIALISM DOWN TO EARTH

By 1914 these Socialist, Social Democratic, or Labor parties had acquired considerable strength in western Europe, in Australia, and in a few regions in North America. They had enlisted the support of many—but by no means all—wage-earners, as well as some middle-class “intellectuals” and professional workers.

Their immediate objectives included political reforms to make constitutions more democratic, social reforms to improve the lot of wage-earners, better educational facilities, and so forth down a long list. On the negative side they opposed autocratic, aristocratic, or plutocratic control of governments, attacked militarism and imperialism, and denounced all measures which seemed to endanger international peace. On some of these matters they could claim that though they were always in a minority in legislatures, they had persuaded or scared governments to action or inaction along the right lines.

Their ultimate objective—socialism—drew no nearer. They never gained enough power to carry out that part of their program. Only in Australia did Labor parties win occasional control of the state or federal governments after 1900. The only important attempt to use that power for inaugurating a Socialist program was the establishment of the Commonwealth Bank in 1912 to compete with the existing “capitalistic” banks.

Most of the world's publicly owned enterprises before 1914 were therefore started by non-Socialists, often by men who were violently anti-Socialist. Some of the builders were aristocrats and autocrats. Bismarck did his utmost both to build up a state railroad system and to crush the German Socialist movement. Some were wealthy industrialists like Joseph Chamberlain, who plunged Birmingham, England, into a vigorous campaign of “municipal trading.” The rest included Australian sheep-ranchers, North American merchants, planters, industrialists, and politicians, or their counterparts in other countries of the old and new worlds alike.

HOW SOCIALISTS TRIED TO REALIZE THEIR IDEAS

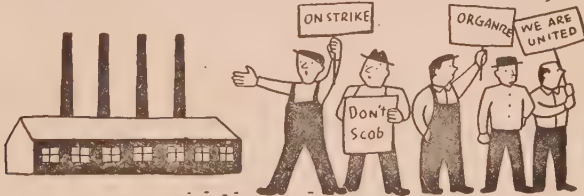
1. *Some established Utopian communities*



2. *Some started co-operatives*



3. *Some resorted to strikes to paralyze capitalist society*



4. *Some organized Socialist Party*



But none of these measures brought much success.

THE ANSWER TO A NEED

These men might be Whig or Tory, Liberal or Conservative, Republican or Democrat—the label mattered little. In leading their town or state to embark on economic ventures, they were rarely concerned with abstract discussions about public *versus* private enterprise. Their chief motive was quite simple. Their community, their state, or their own business needed some commodity or service. Public enterprise was either the only way to get it or seemed the best way. Need rather than theory was the driving force.

The greatest need was for improved transportation: navigable rivers, canals, highways, and then the railroad. These were necessary in the old world as population, trade, and towns grew. They were essential in the new world if settlement was to push back from the coast and spread over land-locked interiors of continents. But the cost was very high. Few countries had sufficient capital for the job or offered the prospect of sufficient traffic to provide an attractive return on private investments. Great Britain was the only country where these two requisites were to be found. It was therefore the only country where canals, turnpike roads, and railroads were constructed as purely private ventures.

Elsewhere some unit of government had to help provide the new transportation, or provide it entirely. The helping took many forms. In France the state contributed the land for the main tracks, and leased it to companies that laid the rails, supplied the rolling stock, and ran the trains. The main lines were built on this basis. But in order to get spur lines and rural tracks the state had to promise that whenever the railroads failed to earn enough money to pay interest on bonds and a fixed profit on stock they could borrow it from the state treasury. In Prussia the government guaranteed bond interest and promised the builders of any line that no rival would be allowed to invade the area it served.

In North America some state and local governments contributed

part of the funds. Virginia supplied two-fifths, sometimes three-fifths, of the capital for building most railroads. It defrayed the whole cost of boring some tunnels. It appointed two- or three-fifths of the boards which managed these "mixed enterprises." The federal government subsidized the railroads of the Middle West and the transcontinentals by vast land grants. To the north, the Canadian government was generous with land, cash, and purchase of bonds.

STATE OWNERSHIP AND OPERATION

The alternative to mixed or subsidized enterprise, and sometimes the sequel to it, was complete state operation. Belgium was the pioneer in this field. In 1834, only four years after the first British passenger train had run between Liverpool and Manchester, Belgium planned a national system of railroads. The state borrowed the money, built the lines, and ran them with a skill that amazed foreign observers. It charged low fares and freight rates which at first scarcely met operating expenses. But the cheap service helped greatly in building up the country's industries and in attracting much international transit traffic.

Elsewhere railroads and other "internal improvements" were built by the state from the start or nearly from it. New York state cut the Erie Canal. Pennsylvania constructed the "Main Line," linking Philadelphia with Pittsburgh by a combination of improved rivers, canals, and railroads. Eventually it spent over \$100,000,000 on such public works.

In Australia the states soon began to borrow and build rather than give large land grants or bond guarantees to private companies. Prussia built a line from Berlin to the Russian border, largely for military reasons. After 1871 most German states took over existing private lines and built all the new ones. Russia grew weary of paying the interest on railway bonds and in 1881 decided to acquire the railroads as a prelude to embarking on an ambitious plan of new building.

When the Canadian provinces federated in 1867, the new government promised to construct a line—which could never hope to pay its way—linking the maritime provinces with the center of the Dominion. It kept its promise, and it also connected British Columbia with the east by subsidizing the construction of the Canadian Pacific Railroad. After 1900 it gaily sponsored many lines to serve the new settlements on the prairies. When many of these new creations got into financial difficulties after 1914 it was compelled to take them over rather than let them founder. By its own building and its acquisition of insolvent roads the Canadian government became the owner of the largest railroad system (in terms of track mileage) in North America, along with a chain of hotels and vacation resorts, a fleet of ships, and a telegraph service.

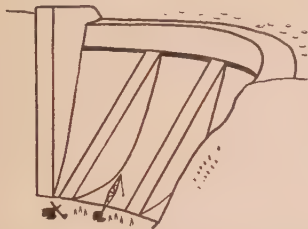
OTHER MOTIVES THAN NEED

Public enterprise thus sprang chiefly from the inability or unwillingness of private enterprise to give a community or country the service it needed. In addition it was sometimes undertaken because the service was in the nature of a monopoly and monopolies have rarely been popular. One cannot have two or three telephone companies competing in the same area. It would be madness to have rival gas or electric suppliers serving a community, each with the right to tear up the streets. Or to permit two streetcar companies to operate, each with its own tracks and both competing with a bus service. Such utilities must enjoy a monopoly. But the task of regulating monopolies has been difficult, and public ownership therefore often seemed a better alternative.

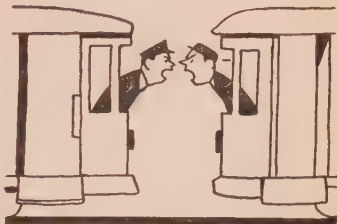
Some public enterprises grew up to meet the actual needs of government. Printing plants produce forms and blanks, print reports and laws, and pour out the documents that flow from government offices. Clothing factories make uniforms. Shipyards and arsenals supply the armed services. State factories or workshops produce road equipment or railroad rolling stock.

NATIONALIZATION WAS BROUGHT ABOUT NOT BY THEORIES BUT BY PRACTICAL NECESSITY

1. WHEN UNDERTAKING WAS TOO
BIG FOR PRIVATE CAPITAL



2. WHEN SERVICE WAS MONOPOLISTIC
IN CHARACTER



3. WHEN GOVERNMENT NEEDED
SERVICE FOR ITSELF



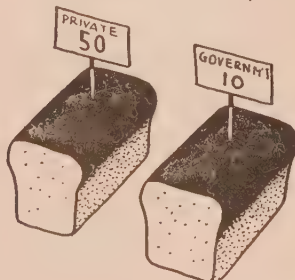
4. WHEN GOVERNMENT NEEDED
REVENUES



5. WHEN MORAL RESTRAINT ON
CONSUMPTION WAS NECESSARY



6. WHEN RISING PRICES HAD TO
BE CHECKED



Finally, some governments embarked on enterprises in order to raise revenue or to restrain and reform their people. State monopolies for the production and sale of tobacco, matches, alcoholic drinks, and salt have long been revenue-producers. Alcohol monopolies were also intended to regulate the sale of liquor and to eliminate the evils often alleged to be associated with the private trade in that commodity.

As another check on the private trader, especially in times of rising prices, states or municipalities occasionally set up fisheries, cattle ranches, and retail food or fuel stores, in the hope of keeping the cost of living from rising too much. In the same spirit rural credit banks, produce warehouses, implement works, marketing boards, fertilizer plants, and other facilities were set up in the hope that they would serve the farmer at a lower cost than would private firms.

PUBLIC ENTERPRISE AT WORK -

The quantity of public enterprise was large. But what of its quality, its achievements, and its costs? To such a question no one general answer is possible—except that public enterprise had no magic touch bringing inevitable efficiency and satisfaction to all concerned. Nor did it have any inescapable evil genius bringing the opposite.

Some public enterprises dealt well with the producer and consumer; others did not. Some adequately served their community; others fell far short. Some made ends meet, or even produced surpluses that helped defray the costs of government. Others never paid their way, and met perennial deficits by drawing on the pocket of the taxpayer. Some were public benefits, some were public nuisances, and others were of all shades between these extremes.

Success depended on a great many factors. Some of these were common to all forms of enterprise and determined the fate of private as well as of public enterprise. Others were peculiar to the latter, and sprang from the fact that an institution which

had evolved or been organized for political functions was undertaking an economic task.

For that task the area under the control of the public entrepreneur might be too large or too small for efficient service. The machinery, procedures, and personnel suitable for political work might be unfitted for running a business enterprise. More important still, political—which usually meant party-political—influences often overrode economic considerations. Pressures exerted by capitalists, unions, cities, farmers, or special groups of consumers might lead to decisions more concerned with winning or retaining votes than with running a business, or even with doing the job wisely and well.

One of the chief problems confronting the advocates of public enterprise in 1914 was, therefore, to find some kind of organization that would be free from excessive political interference or from what they regarded as the wrong kind of political interference. Technicians and managers sometimes chafed under the highly centralized and detailed control, the red-tape routine, that checked initiative or experiment. They resented the condemnation which descended on their trivial failures and the lack of praise when they made good.

Meanwhile labor conditions in public industries seemed little, if any, better than in those run by private employers. Hours were often long, wages low, and the formation of unions might be forbidden. Hence some young Socialists and labor leaders were changing their tune to demand that industries be owned and run by those who worked in them—a gospel known as “syndicalism.” Or that they be owned by the state but be entrusted to the management of guilds composed of the employees—a plan known as “guild socialism.” Since neither of these things seemed likely to happen, heaven was still a long way off.

3. *WORLD WAR I AND ITS AFTERMATH*

In 1914 sufficient public enterprises were operating in various parts of the world to reveal the possibilities and problems of that type of undertaking. The amount was growing, partly to cope with such new needs as those for electricity and telephones, partly to wrestle with rising prices and the scarcity of houses, and partly because Socialist or Labor parties were gaining strength in some countries.

Yet the total sum amounted to but a small and specialized fraction of the whole economy. If nationalization was to advance only through the triumph of Socialist parties, the advance would be slow. It was highly improbable that such large fields as agriculture, the heavy industries (coal, iron, steel, machinery, chemicals, etc.), shipping, banking, luxury production, and foreign trade would be disturbed in the near future.

In a world at peace the future promised a combination of private enterprise, public provision of some goods and services, and consumer cooperation. Each would continue to grow, but the first would always overshadow the other two.

Private enterprise, however, would probably be less "free" to do as it wished. For it was being increasingly compelled to bargain collectively with labor unions, while democratic states were passing more laws to deal with such matters as wages, hours, health, and social security. Its net income might be reduced by the increasing burden of taxes, for the income tax rate was just beginning to be made higher on large incomes than on small ones.

Yet the prospects seemed good. Such old industries as coal, textiles, iron, steel, and railroads were showing satisfactory profits. So were the new ones—automobiles, chemicals, oil, and electricity—to which the twentieth century had just given birth.

THE EFFECTS OF THE FIRST WORLD WAR

This economic system, built up to serve the world's needs during what has been called "The Hundred Years' Peace," soon proved inadequate to meet World War I demands for men, munitions, material, and money. But no government had prepared plans in advance for meeting those demands. "Business as usual" was a silly slogan that had to be abandoned. Each belligerent was obliged to improvise controls over private industry, commerce, and transportation, and to add some establishments of its own.

Germany and Britain were driven farthest in those two directions. Germany's greatest need was to counteract the scarcity of materials created by the Allied blockade. In Britain the government erected hundreds of "national factories," bought most of the imported wheat, wool, cotton, metals, and sugar, took control of the merchant marine, ran the coal mines, and merged a hundred railroad companies into one operating unit.

Meanwhile the war strengthened the labor movement on both its union and political fronts. The strain and fatigue of long hours, discontent over rising prices or rationing or profiteering, growing doubts concerning the real war aims, propaganda promises of a brave new world that was to come with victory, and the influence of the Russian revolution—all these combined to fortify labor's assertion of its strength, grievances, and wishes.

In Germany the Social Democratic party gained much in stature and prestige. When defeat came in late 1918 it took control, supplied the new Republic with its first president and chancellor, fought off the threat of a Communist revolution, and put some of its ideas into the Weimar constitution. In France Socialists occupied important posts in the cabinet. In Britain labor leaders were members of the coalition ministry that governed from 1916 onward.

Labor unions generally expanded their membership during and immediately after the war. They strengthened greatly their power to insist on collective bargaining with employers and were more readily recognized by the state as spokesmen for their members. They demanded that the peace settlement include provisions for the international improvement of working conditions.

In France, Britain, and the United States they clamored for nationalization of the mines and railroads. In the post-armistice months British miners and railroadmen threatened to strike in support of this demand. French railroad workers carried out their threat. For over a year after the firing stopped the sky was filled with clouds of labor unrest which at times seemed bound to darken into revolution.

PUBLIC ENTERPRISE BETWEEN THE WARS

As peacetime conditions were gradually re-established, the war-nurtured strength of labor and the high tide of government economic activity both ebbed. But neither dropped to the level of 1914. During the 1920's and 1930's union membership rose and fell with the business curve in democratic countries. So did membership in the Socialist and Labor parties.

The high hopes and strong demands of 1918-19 went down in defeat and then in depression in western Europe. In Italy they disappeared under fascism. The Social Democrats lost their dominant position in Germany. But they remained one of the most powerful parties until they, along with the unions, were crushed under the Nazi heel in 1933. In Britain the Labor party gradually grew strong enough to outrank the Liberals as the second largest party. Twice—in 1923-24 and in 1929-31—it ran the government with the support of the Liberals, but lacked the power to carry out any part of its nationalization program. From 1931 to 1940 it was a rather weak opposition to the Conservative government. In France, Scandinavia, Australia, and other countries, Socialists either were unable or unwilling to invade the realm of private enterprise.

In spite of this fact, public enterprise did make some noteworthy steps forward. In addition the concept of state planning of a country's economy found favor in both democratic and dictatorial states throughout the world. Even governments which had been quick to shed wartime controls found it impossible to desert the field entirely or were compelled to re-enter it.

The explanation of these trends is once more to be found in need rather than in theory. The need was felt in at least five places:

1. Some veteran industries, such as coal mining, failed to regain their prewar health and profitability. Their costs had risen more than their income, their markets had been damaged and were not easily repaired, and their profits were meager or missing. Labor urged that they be nationalized. Others said they must be "rationalized," which meant reorganized, re-equipped, and generally made more efficient. Governments usually favored the latter policy, but either course involved state action and the use of public funds.

2. New technical developments, such as radio and large-scale production of electricity, raised the old question of public policy, "Should they be developed by public or private means?"

3. New states which had appeared on the map as a result of the war had ambitious plans for economic development. They were determined to cut up large estates into small farms, establish rural credit banks to help the peasant, and promote such manufactures as seemed desirable. Since there was little local capital available, foreign capitalists must be induced to come in and start the necessary enterprises or the state must borrow the money abroad and embark on them itself. Both things happened.

4. The depression which struck the world in 1929 forced governments in every country to far-reaching action in their efforts to relieve suffering, stop the downward swoop of prices, provide employment, and promote recovery. Help to private enterprise was supplemented by many kinds of public production, marketing, or financing.

5. The rearmament boom, which had begun in Germany by 1935 and gradually spread wider, brought the state more

and more into the fields of industry, purchase of supplies, and investment.

PUBLIC CORPORATIONS

Many factors, thus, combined to put governments further into business ventures. For some of these a new kind of organization, which had been taking form before 1914, was increasingly used. This was the "public corporation."

A public corporation was created by special law or charter to produce some particular commodity or render some service. The state chose the members of its governing board, prescribed the way the capital or income was to be obtained, possibly supplied some of the former, and required annual reports on the board's performance.

Inside these general limits the board enjoyed the widest powers of self-government. Its members were as able a group of men as could be found. It could plan its strategy, tactics, and operations along the lines it thought most efficient and serviceable. It was free from red tape, from constant sniping by the political opposition, from pressure by the government's supporters, from changes in personnel when one minister or party gave place to another, and in general from all that detailed continuous political supervision that had bedevilled many earlier government ventures into business.

The public corporation was given its best test and opportunity in Britain. There it was entrusted with three important tasks. The first was to provide the country with plenty of cheap electricity. Before 1926 the supply was being generated and sold by about six hundred municipal or private plants, mostly small and local. It was also being made by many firms for their own use. Recent improvements in generating and transmitting electricity had made this set-up obsolete. Yet it had proved impossible to persuade the hundreds of producers to cooperate in building up a better system.

The Central Electricity Board was therefore created by a Con-

PRIVATE ENTERPRISE VS. PUBLIC ENTERPRISE

SOME OF THE ARGUMENTS

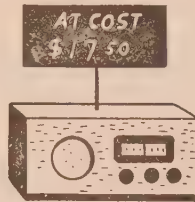
PRIVATE ENTERPRISE

COMPETITION FOR PROFIT BRINGS LOWER PRICES



PUBLIC ENTERPRISE

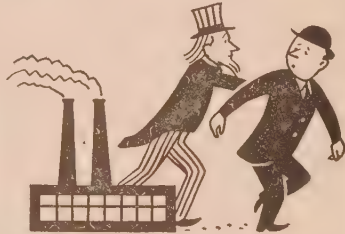
ELIMINATION OF PROFIT BRINGS LOWER PRICES



ECONOMIC FREEDOM FROM GOVERNMENT INTERFERENCE



ELIMINATION OF BIG BUSINESS MONOPOLY



ABSENCE OF RED TAPE AND POLITICAL PRESSURE MEANS MORE EFFICIENCY



WITHOUT PRIVATE PROFIT, INCOME WILL BE MORE EQUALLY DISTRIBUTED



servative government to do the job. It erected a network or "grid-iron"—popularly called "the grid"—of more than 4,000 miles of high-tension wires covering the whole country. Along these lines it transmitted current generated by a relatively small number of large power stations. These plants remained the property of cities or private companies. The Board bought the power from them and sold it wholesale, virtually at cost price, to the existing civic or private distributors. These then retailed it to their customers.

In this way no existing vested interest was hurt. The Board's chief services were to stimulate more economical production, provide means for nation-wide distribution, and facilitate the sixfold increase in the use of electric light and power which has taken place since 1926. The price of electricity has fallen 35 per cent during that period, although the cost of coal has risen by more than 200 per cent. Yet the Board accumulated enough surplus to pay off half the \$350,000,000 spent in building the grid.

THE BBC

The second public corporation was the British Broadcasting Corporation, created in the same year (1926) and by the same Conservative ministry as was the Central Electricity Board. By that time Britain, like the United States, had seen radio sets develop in less than five years from "cat's whiskers," crystals, and headphones to batteries, tubes, and loud-speakers. Britishers, too, had developed the "listening in" habit, and could compare two alternative ways of running stations to provide programs.

Radio stations in the United States had to possess a license issued by the Secretary of Commerce. He had granted these licenses fairly liberally. But when he decided that enough had been issued he was told by the courts that he had no power to refuse them to any applicant. The result was a wild radio station boom, bedlam, and bust in the mid-1920's, and the consequent establishment of the present system of control by the Federal Communications Commission.

In Britain the Postmaster-General controlled the issue of licenses. In 1922 he granted one to the British Broadcasting Company, an association of makers of radio parts and sets, and then issued no more. He agreed to collect through the Post Office an annual license fee of about \$2.50 for each radio set in use. The Company was to receive half of this fee, and in return was forbidden to broadcast any paid or advertising matter.

On this monopolistic, fee-receiving basis the Company quickly built up a service that covered the whole British Isles. It became such an essential public service that no other system of broadcasting seemed worth considering. It did, however, seem desirable that the Company, which had been started to induce listeners to buy the products of its member-manufacturers, should give place to a public corporation which would have the sole aim of serving listeners.

This step was taken at the beginning of 1927. The British Broadcasting Corporation took over all the plant, organization, and personnel of the old Company, including its managing director. The control and policy of the Corporation was entrusted to a board of five governors chosen by the government. They have usually been people of some repute in public service, business, or the professions. The funds for the work remained, as before, a part of the annual license fee paid on each radio set. Income from advertisements or from sale of radio time remained taboo.

THE LPTB

The third public corporation was the London Passenger Transport Board. This was set up in 1933 to bring order and coordination out of the crowded traffic confusion that cursed London as it does all large cities. The 2,000 square miles of Greater London were inhabited by about 9,500,000 residents who, along with swarms of visitors, made possibly four billion trips a year. Over a hundred different municipal or private bodies operated surface railroads, subways, buses, and streetcars. Overlapping, over-competition, traffic jams, deficient service in some spots and poor

returns on some investments combined to create an acute problem.

The only hope of solving that problem was to consider the situation as a whole and see how far the different services could be knit together under unified control and operation. The London Passenger Transport Board was created to provide the unification. The bill for its creation was prepared by a Labor minister and was then adopted and carried through Parliament by his Conservative successor. The Board thereupon took over all of London's existing transport systems, paying for them by issuing special stock.

Board members were chosen by a sort of electoral college consisting of representatives of the local city councils, as well as of the bankers, lawyers, and accountants of London. They were selected because of their wide experience and known capacity in transport, industrial, commercial or financial affairs. The first chairman, paid a salary of over \$60,000 a year, had been a top executive in American and British urban transportation firms. The Board was expected to pay its own way, but its rates were regulated by a state tribunal which also controlled railroad fares.

Governments on the Continent also became more deeply involved in business enterprises during the interwar decades, sometimes from inclination but more often from necessity. Public housing projects were noteworthy in Germany, Austria, and France, as well as in England. State or "mixed" enterprises developed hydroelectric or steam-driven generating plants. The new states set up rural credit banks, fertilizer factories, and a wide range of industries.

Poland went farthest in this direction. By 1939 the state owned all or nearly all the plants producing potash, alcohol, tobacco, aircraft, automobiles, and dyestuffs, as well as aviation services, radio, the merchant fleet, the railroads, and fire insurance. In addition it owned a large part of the smelters, salt works, telephones and banks, and had an interest in machine-tool factories, coal mines, chemical works, and several other industries.

THE GREAT DEPRESSION

When depression came in 1929 the government in every land had to play doctor to all kinds of sick private enterprises. The German government gave such large transfusions of capital to the tottering banks in 1931 that it virtually became their owner.

In France the state had always lent the railroads money whenever their earnings were insufficient to meet the interest on their bonds. The loans now became so large that by 1937 the railroads' accumulation of debt to the state was far greater than their total share capital. The Popular Front, a left-wing coalition which won the election of 1936, therefore carried out its nationalization plan by unifying the railroads in a National Railway Company and allotting 51 per cent of the stock to the state.

In Italy the banks had put much of their own capital and of their customers' deposits into the development of industries. They had bought industrial bonds or stocks and lent money for operating expenses. By early 1933 the industrial firms were making no profits and were unable to repay their debts. Hence the banks could not meet the claims of customers who came to withdraw their deposits and the whole banking system faced bankruptcy. The government therefore created a public corporation, the Industrial Reconstruction Institute (IRI). It supplied the IRI with funds to buy from the banks the industrial securities they held as well as a lot of bank stock.

This step averted a bank panic. It also made the IRI owner of great heaps of bank and industrial stocks or bonds. At first the IRI intended to sell these securities to the public when conditions improved. When Mussolini embarked on his expansionist and armament policies, however, he strengthened, rather than relinquished, the hold of the IRI on the country's industrial and financial plant. What began as a step to salvage the banks, therefore, led the Italian state to become part or sole proprietor of a large slice of the economy—of banks, ships, telephones, radio, iron and steel works, shipyards, chemical plants, and armament industries.

The effect of the depression on our own government policies need only be recalled here. We tried most things at least once, first under President Hoover's Old Deal and then much more so under President Roosevelt's New Deal.

We gave public aid to harassed private enterprise and improvised many kinds of public enterprise. For a time we bought produce in the hope of propping up its price. We became the world's largest buyer of silver and gold. Like most other countries we supplied credit for many purposes, and adopted the belief that central bank or treasury policies could do much to revive business and then keep it on an even keel. We embarked on public works to such an extent that in 1940, long after the depression, one American worker out of every twenty was still engaged on public relief works. And whenever advocates of large-scale public enterprise list the outstanding achievements in that field, the Tennessee Valley Authority, child of our depression policies, stands near the head of the list.

FULL EMPLOYMENT—NOT AS PLANNED

The circumstances of the two interwar decades thus led governments to play a far greater part, not merely in regulating and aiding the enterprises of their people but also in rendering important new economic services themselves. Few men had the heart or justification to condemn these developments, especially after 1929.

The slogans of the nineteenth century had suddenly become empty sounds. Private enterprise was manifestly no longer enterprising, expansive, or energetic. There were millions of men and billions of dollars seeking in vain to be put to productive work. More goods could be made than could profitably be sold. Banks could not persuade people to borrow all the funds they were eager to lend. Capital equipment was rusting away or wearing out more quickly than it was being replaced.

In a capitalistic system which had apparently gone stale, become mature, or grown middle-aged, democratic governments

FACTORS THAT HAVE INCREASED STATE OWNERSHIP

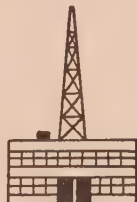
WORLD WAR I



NEED FOR WAR PRO-
DUCTION AND POSTWAR
RECONSTRUCTION



DESIRE OF NEW STATES
TO ESTABLISH KEY
INDUSTRIES



APPEARANCE OF
NEW INDUSTRIES

DEPRESSION



PRESSURE TO SALVAGE INSOLVENT
BANKS AND BUSINESSES

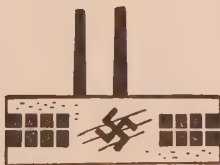


NEED FOR GOVERNMENT
WORK PROJECTS

WORLD WAR II



REVIVAL OF WAR TORN
INDUSTRIES



OPERATION OF
NAZI-OWNED BUSINESS



MARXIST THEORY AND
COMMUNIST PRESSURE

were everywhere expected to provide security, stability, subsidies, and shots in the arm. *Laissez faire* would have meant "Leave men alone—to starve or go bankrupt." "Free competition" had proved so damaging that everybody seemed eager to run away from it.

Hence the prevailing opinion of the expert onlookers was that the government must continue to play an increasing part in the economy. It must go on making and carrying out plans to insure "full employment" of a country's resources of capital, land, and labor. In such plans it would be hard to say where public control ended and public enterprise began. But obviously private enterprise alone could not satisfy society's needs for steady work and income.

Then the world got its "full employment," not in planned peaceful production, but in rearmament and war.

4. NATIONALIZATION SINCE WORLD WAR II

World War II wrought havoc in many parts of Europe's physical plant, its population, its property relations, and its emotions. In the areas of central Europe which they occupied, the Germans confiscated property of Jews and Gentiles alike, shifted populations at will, killed many property owners, debauched currencies, and plundered banks.

Under such conditions restoration of the economy could not be left to private initiative or enterprise, if for no other reason than that there was no private capital available for the task. There was also another reason. Many Socialists and Communists were among those who resisted the Germans. When liberation came, it was natural that these men should press their prescription for reconstruction. The presence of Russia as liberator of the east-central states was a further reason why that prescription would be given to the patient.

THE CASE OF CZECHOSLOVAKIA

President Benes, in October 1945, signed five decrees nationalizing the key industries and financial institutions of Czechoslovakia. He then made a radio broadcast, beamed especially across the Atlantic. In it he tried to appease or answer American critics of his action by setting forth four "economic and political reasons for nationalization."

1. The Germans had totally plundered and ruined the banks and torn the industries out of the hands of their original owners. To return them to Czech individuals without much state assistance and new funds was "simply not pos-

sible," and "it was therefore best and more just to leave them in the public ownership for which the Hitler regime had to such a large measure prepared them and to declare them in principle state property."

2. Many large industries and banks belonged to Sudeten Germans, who had connived with Hitler to wipe out Czech democracy. These Germans were now being evicted and their businesses seized "as the property of traitors." It seemed better to keep the businesses as partial reparation than to try to divide them among Czechs in accordance with some arbitrarily chosen principle.

3. All Europe, under the influence of the war, "is politically and economically changing." Britain, France, and Italy have recently gone left. There is a general "transition from pure liberalism to a system in which the socialist elements will have considerable weight or even predominance." Czechoslovakia cannot well avoid going that way. We do not wish to be pushed there "by strikes, revolts, and conflicts, or even by a civil war," but can "try to avoid all this by a wise and progressive policy, socially courageous but democratically honest."

4. "The final reason is of a geographical nature: We are Slavs and neighbors of the Soviet Union. . . . It is only natural that its socialistic system should have an influence upon us." But as an independent democratic people, we shall voluntarily choose from the Soviet Union "all that we can use, just as we take it from Britain, America, or France." We shall try to work our way along "without any pressure, without any blind and thoughtless copying. . . . Our people are prepared for it and are at the same time so deeply democratic and traditionally patriotic that there is no doubt that all the necessary measures will be effected in accordance with their own needs, their own conditions—to put it briefly, in the Czechoslovakian way."

MISTAKEN FAITH?

In that faith Benes signed the decrees prepared by the provisional coalition government. Their effect was to nationalize all banks, insurance companies, mines, iron and steel works, power plants,

NATIONALIZATION OF CZECHOSLOVAKIAN INDUSTRY

BEFORE WORLD WAR II



RAILROADS



TELEPHONE AND TELEGRAPH

AFTER WORLD WAR II



BANKS



MINES



STEEL AND IRON



POWER PLANTS



WAR INDUSTRY



CHEMICAL INDUSTRY

SINCE COMMUNIST COUP



FOOD INDUSTRY



SUGAR AND SPIRITS



BUILDING



WHOLESALE



FOREIGN TRADE



TRANSPORTATION

munitions factories, and chemical works. Virtually all other kinds of establishments which ranked as "large" because of the number of their employees were also included. The dividing line between large and small was as low as 150 wage-earners in the pottery and some other industries but as high as 400 or 500 in the textile factories. Cooperative banks, dairies, and similar enterprises were untouched, as were all the small factories, stores, and commercial houses. Compensation was to be paid for nationalized property, except when the owner was German or Hungarian or had collaborated with the Nazis.

The nationalized industries were told from the outset that they must stand on their own feet, make ends meet, and expect no subsidies from the state. Each firm became a "national corporation." It was managed by a governing body containing administrative, technical, and wage-earning members. It paid the same taxes as did private firms, was subject to the same laws, and differed little from an ordinary firm except that its profits went to the state.

By late 1947 about 2,500 large firms, with two-thirds of the country's industrial capacity, had been nationalized, leaving about 15,000 smaller businesses untouched. When the Communists seized control in early 1948, however, all firms with more than fifty workers were taken over, as were also six major occupations—the food and glass industries, sugar and spirits, building, wholesale and foreign trade, and transportation. This took nationalization far beyond the original plan.

NATIONALIZATION IN FRANCE

During the days of underground resistance, Frenchmen debated the shape of things to come when the Germans had been expelled. In such discussions the left-wing Radicals, Socialists, Communists, and labor union leaders reverted to nationalization proposals which they had advocated in the prewar days of the Popular Front (1936 onward). The center or right-wing elements did not deny that there was merit in these suggestions.

When liberation came, therefore, the chief elements were in general agreement that nationalization was essential. They had two weighty reasons: (1) Private enterprise lacked the money, will, or capacity for undertaking the heavy task of repairing, modernizing, and expanding French industry. (2) Big business and high finance had been too much in the hands of monopolies in prewar days. These monopolies had dominated the government, crushed small businesses, tyrannized their employees, supported French Fascists, and advocated a defeatist foreign policy. When the Germans came, some of them had collaborated with the enemy.

There was also a general feeling that the nationalized industries should not be run directly by government departments. Instead they should be autonomous business enterprises like those of Czechoslovakia, governed by boards containing representatives of the state, the consumers, and the employees. And they should be expected to pay their way. There was agreement that owners be compensated, but some disagreement about the amount to be paid, the list of industries to be nationalized, and the time at which it was to be done.

The left-wing's list included banking, insurance, power, coal, iron and steel, chemicals, and merchant shipping. The other parties said this list was too long. De Gaulle favored nationalization but resisted the demand for immediate action. He took the position that a non-elected government had no mandate to make such a far-reaching transfer of private property as would be involved in nationalization.

FROM PLAN TO PRACTICE

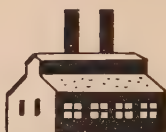
The first small steps were taken, however, before an election had been held in France. In late 1944 a public board was created to take charge of the coal mines in the northeast. A second one was put in control of the Renault automobile works—confiscated because their owner had collaborated with the Germans. A third took over an airplane engine factory, again on grounds of treason

NATIONALIZATION OF FRENCH INDUSTRY

BEFORE WORLD WAR II



RAILROADS



SOME WAR INDUSTRY

AFTER WORLD WAR II



RENAULT AUTO FACTORY



BANKS



SOME INSURANCE



COAL MINES



ELECTRICITY AND GAS



AIRLINES

GRAPHIC ASSOCIATES

among the directors. A fourth was assigned the operation of the civilian airlines.

Once the constituent assembly had been elected, in October 1945, formal deliberation and action became intense. By May 1946 the following enterprises had been nationalized almost without opposition: the Bank of France and the four largest commercial banks, holding about four-fifths of all bank deposits; the largest insurance companies, which handled about two-thirds of the country's insurance business; all the gas and electrical industries; and the rest of the coal mining industry. The railroads had been nationalized in 1937, the airlines in 1945. There the list stopped; since May 1946, no further additions have been made.

The former owners of the nationalized enterprises were paid, far from generously, by being given government bonds or stocks. The subsequent devaluation of the franc has reduced the value of this compensation by perhaps as much as two-thirds.

Meanwhile the nationalized industries were placed under the control of central, regional and local boards containing representatives of the state, the employees, and the consumers. In most cases these three "interests" had equal representation. But the coal miners put up such a strong fight that they gained the chance to hold a majority of seats on the boards that actually operate the mines. In theory the governing bodies were to be autonomous, free from ministerial or legislative control. In return they were to be financially self-supporting, make their accounts balance, and pay normal taxes. If they failed in these respects the boards could be dismissed.

NATIONALIZATION IN BRITAIN

During the 1930's socialism attracted little attention in Britain, whether as a better social system, a party platform, or an election issue. The Labor party still included the familiar slogans of socialism in its statement of ultimate objectives. But since the party had little prospect of gaining control of Parliament, ultimate objectives were a long way off. There were more immediate things for all parties to worry about, such as coping with the economic depression at home and with the ominous deterioration of international affairs.

Time, especially hard times, had taken much of the wind out of the Socialists' sails or had made it blow in a new direction. There was no longer any point in denouncing the great private enterprises built up during the nineteenth century, or in accusing them of placing "production for profit" before "production for use." These enterprises—coal mining, railroads, the textile industry, iron and steel—were making very little profit. They were sick in all countries during the depressed decade.

"Bloated capitalists" were no longer even plump, especially

when they had paid their income taxes. If their enterprises were nationalized, the government would gain few profits to distribute in the form of higher wages for the worker and lower prices for the consumer. Instead, the state would have to nurse them along and finance them heavily. Especially would it have to subsidize them if it wished to rid them of the obsolete equipment and inefficient management from which, many people said, they were suffering.

The same sort of change had taken place in discussions of the land problem. In former days it had been easy to attack the great landowners, to charge them with bleeding their tenants through high rents. The traditional Socialist demand, therefore, had been that the land be nationalized so that the wealth from it could pour into the national purse. Now one of Britain's leading agricultural economists was urging nationalization of the land on the opposite ground. The landlords were too poor, he said. When they had paid their crushing tax bills they lacked enough capital to keep their estates in good shape.

On the land as well as in industry it was the poverty and unprofitability of private ownership, rather than its wealth and prosperity, that seemed the best argument for nationalization.

LABOR TAKES THE REINS

The discussion might have continued indefinitely but for World War II. That war thrust on the Labor party the responsibility for sharing in the government of the country from the darkest hours of 1940 to V-E Day. Churchill, Eden, and the Conservative wing of the cabinet did most of the work of conducting the war and foreign relations. Attlee, Bevin, Morrison, and the Labor ministers managed the home front and the organization of labor. On domestic problems the two sides worked well together. They sponsored a far-reaching reform of education, approved the basic principles of the Beveridge social security plan, and initiated inquiries into the coal industry, colonial policy, and "full employment."

But when the war in Europe ended, the coalition was dissolved and an election held in July 1945. The results surprised everybody, including the victorious Labor party. That party, which had won only 150 seats in the last election (1935) annexed nearly 400 this time. Its opponents saw their strength slashed from 430 to about 210. Labor thus gained such a big majority that it could pass any law it cared to submit. But in return it was responsible for carrying out the nationalization part of its program and for steering the country through difficult days of reconstruction as well as through stormy international waters.

For the first of these tasks the government was far from ready with precise plans. In 1933 Herbert Morrison, father of the London transport scheme, admitted that his party "had never worked out its socialization proposals in government bills." In 1945 the situation was unchanged. As Emanuel Shinwell, a Labor minister, confessed in 1948, "there was far too little detailed preparation in formulating schemes for nationalization . . . When the mining industry was nationalized, for example—and this had been on the Labor party program for fifty years—we thought we knew all about it; the fact of the matter was, we didn't."

"NATURALS" FOR NATIONALIZATION

Fortunately for the party, there were some enterprises and industries that seemed "naturals" for immediate nationalization. And Britain had gained enough experience with public corporations to suggest methods for handling the state's adopted children. The Bank of England was privately owned by stockholders and had been since its foundation over 250 years before. But it was very closely connected with the government as banker and controller of credit policies—so closely that its conversion into a public corporation seemed justifiable to Socialists. To others it seemed unnecessary. The stockholders' shares were bought by the state at the stock exchange price and paid for in 3 per cent government bonds.

Overseas civil aviation was also closely tied to the state. The

NATIONALIZATION OF BRITISH INDUSTRY

BETWEEN TWO WARS



ELECTRICITY
1926



RADIO
1926



LONDON
TRANSPORTATION
1933

AFTER WORLD WAR II



BANK OF
ENGLAND
1946



OVERSEAS
AIRLINES
1946



COAL MINES
1947



INLAND
TRANSPORTATION
1948

GRAPHIC ASSOCIATES

airlines were “chosen instruments,” endowed with a monopoly of their routes and heavily subsidized. Three public airline corporations were therefore set up in 1946, the world map was distributed between them, and they were allowed to draw on the Treasury up to \$40,000,000 a year to meet deficits.

Nationalization of the generation and retail sale of electricity was a “carry through” of the Central Electricity Board’s work described in earlier pages. Under the new plan the state owned the power stations as well as the “grid.” Stockholders of power plants and retailing companies sold their securities to the state at market price, receiving fixed interest bonds in return.

Nationalization of the coal-gas industry involved overhauling

the whole business. Gas was being produced, as electricity had once been, by many hundreds of units. Some were municipally owned, others were run by private companies. Most were local in scope, and some served but a single village. Only a few enjoyed the benefits of large-scale production and widespread distribution.

A committee of inquiry, presided over by the chairman of one of these giants, said that the industry must be nationalized if it was to achieve an "efficient, coordinated, and economical system of gas supply," if coke was to be produced more cheaply, if the by-products were to be used fully, and if the rising cost of coal was to be counteracted. A public corporation was therefore set up to divide the country into twelve areas and to combine mass production with long-distance distribution. The stockholders were bought out, municipal owners had their bonds paid off, and there was talk of spending a billion dollars for reorganizing the industry.

INLAND TRANSPORT

The two most ambitious projects were those connected with inland transportation and coal mining. After World War I the railroads were not nationalized, as labor demanded. Instead they were "rationalized," with over a hundred companies merged into four regional units.

Like the railroads in all countries, they soon felt the fierce rivalry of road vehicles. These stole many of their passengers and skimmed the cream off their freight earnings by scooping up the carriage of parcels and other goods that paid high rates. They tried to fight or come to terms with the road carriers. Meanwhile they made little profit and had less capital to spare for improvements.

The war imposed a terrific burden on the railroads. They carried it with rare skill and vast ingenuity. But they emerged worn out by six years of overuse and undermaintenance. They had no hope of earning such postwar income as would make them

attractive once more to investors. Besides, any restoration of their service must envisage a coordination of railroads, road traffic, canals, and rivers.

All forms of inland transportation were therefore nationalized at the beginning of 1948. Owners of railroad stock received over a billion dollars' worth of 3 per cent bonds which are to be redeemed in thirty to forty years. The country was divided into six areas, each with its own regional management under the control of a central transport commission.

OLD KING COAL

The coal industry, prosperous and expanding during the nineteenth century, became sick and stagnant after World War I. King Coal, instead of calling for his pipe, bowl, and string trio, clamored for subsidies, longer hours, and lower wages. Commissions and committees diagnosed and prescribed. Governments produced voluntary or compulsory schemes for amalgamating mines and creating cartels to prop up prices. Miners fought to protect or improve their wages. Little new capital went into the industry, unemployment was acute, and few young men chose mining as their lifework. Unrest was never far below the surface of the coal fields.

During World War II the mines suffered from lack of labor, absenteeism, wage disputes, and an aging working force. The British government had to establish a Ministry of Fuel and Power which took control of mine operations. As a guide to postwar policy a committee of seven eminent mining engineers headed by Mr. (later Sir) Charles Reid, was asked to examine the industry and make basic recommendations for its reorganization.

The committee issued its report in early 1945. It proposed great extensions in the use of machines for cutting and conveying the coal, countless other technical improvements, amalgamation of adjacent mines, the closing of pits that had outlived their usefulness, and the vigorous development of mines that could be worked more cheaply. It concluded that such drastic rationaliza-

tion "cannot be satisfactorily carried through if the industry is organized as it is today. An Authority must be established which would have the duty of ensuring that the industry is merged into units of such size as would provide the maximum advantages of planned production."

With this Reid report as guide, the Labor government nationalized the mines at the beginning of 1947. The owners were compensated, to the total amount of over \$600,000,000, with government bonds. A National Coal Board took charge of the industry. As usual, it was subject to ultimate control over its general policy by the Minister of Fuel and by Parliament. But within this wide limit it was to be free to develop the industry as it thought best. It could borrow from the Treasury up to \$600,000,000 for reorganization and improvement during the first five years. In other words, almost as much could be spent in making the mines more efficient as had been paid for them.

MORE YET?

At that point the list of British nationalized industries rests today. Plans for taking over the iron and steel industries hang fire. Meanwhile those industries have staged a remarkable recovery since the war ended.

In pushing through its program the government frequently asserted that its total plans would affect only about 20 per cent of the country's economy, leaving 80 per cent under "private ownership and free enterprise." But such things as the Bank of England, light and power, coal, and inland transportation are vital. So this statement of percentages means little more than saying that a man's head, spinal column, and heart would be nationalized, leaving the rest of him free to do as he wished.

Space does not permit an examination of recent moves toward nationalization in other parts of the world. In Canada the Cooperative Commonwealth Federation has been advocating a mildly Socialist program for over a decade. The victory of that party in the prairie province of Saskatchewan in 1944 was followed by the

establishment of small factories for making cloth, shoes, and a few other commodities. In Argentina, for reasons more national than Socialist, the Perón government seeks to develop state industrial, transportation, and commercial undertakings. For somewhat similar reasons the new self-governing state of India has announced an ambitious program of public industrialization. The Australian Labor party has put the nationalization of commercial banks in the forefront of its platform.

This catalog could be made longer. Instead of doing so, let us see how the newly nationalized industries are faring.

5. PRESENT PROBLEMS AND FUTURE PROSPECTS

Nationalization has proved to be no fairy wand or magic carpet for the postwar world. The transfer of industries to public operation is only the beginning of a journey in a fog, on a rough sea, in a vessel never before carrying such a heavy cargo. Moreover, there may be differences of opinion among the passengers, between them and the crew, and between the officers and crew, about the destination.

Three things have been expected from nationalization:

1. The capitalist will be removed from his seat of power. He will be eliminated as a target for envy, hate, malice, and all uncharitableness, and be pensioned off at 3 per cent.

2. The nationalized industries will become more efficient, rational, progressive, and expansive. This will give consumers in general—including the remaining private enterprises—a better supply of goods and services at a cost which includes no toll charge for profit. Some French supporters of nationalization in 1944–1946 believed this to be both possible and necessary. So did many middle-class Britons who voted for the Labor party in 1945. In the case of coal mining, such non-Labor papers as the *London Economist* and the *Manchester Guardian* held the same view.

3. The economic and social lot of the wage-earner will be improved. He will secure better working conditions, higher wages, shorter hours, a steady job, a nicer home, and a healthier environment. This is what wage-earners have always expected would come when the private boss was replaced by a public employer. In the twentieth century some of them have also expected to be able to share in the management of the industry.

PRACTICE IS HARDER THAN PREACHING

The first of these three expectations has been fulfilled. Its price is the state's obligation to pay a large sum in bond interest for a long generation and then to redeem the bonds.

Realization of the second and third depends on a number of things: adequacy of the administrative machinery, the quality of its personnel, the relations between central and local managements, the extent to which undue political pressures are evaded or resisted, the attitude of wage-earners, the availability of sufficient capital, and the general trend of economic conditions.

On all these points difficulties have been encountered, especially in the thorniest and most important of the schemes—coal mining. In France the early plans for autonomous enterprises, governed by representatives of state, consumers, and workers, and paying their own way, have had to be modified. Large state subsidies have been necessary. The cabinet and legislature have strengthened their control on questions of policy and finances. And they have prescribed so many grounds for dismissing or dissolving the various boards that autonomy “is on the way out, and with it any real measure of workers’ management.”

In Britain Sir Charles Reid, one of the production directors on the Coal Board, resigned in May 1948. He asserted that while he believed in nationalization, he had no confidence in the Coal Board or in the organization it had set up. In early 1947 the Labor Minister for Fuel, over the Board's opposition, reduced the working week from five and one-half to five days. When production fell alarmingly, he was obliged to reverse his decision. These events show that the governing boards have not found satisfactory forms of organization. And the persistent desire of parliamentarians to ask questions about the nationalized industries shows that they are not free from exposure to political influence.

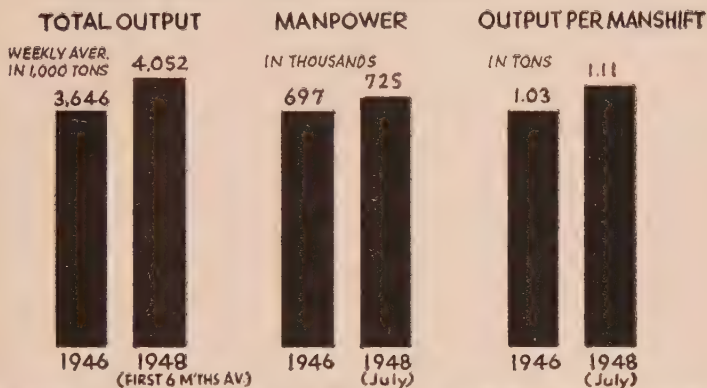
British plans included no provisions for labor representation on administrative boards. There was some vague provision for ad-

BALANCE SHEET FOR BRITISH COAL

Private industry's problems show up under nationalization too

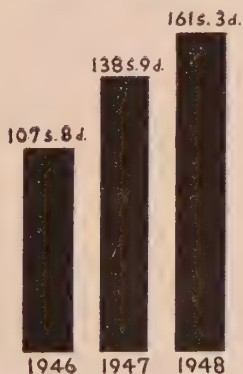
1. PRODUCTION

PRODUCTION, MANPOWER AND OUTPUT PER WORKER HAVE IMPROVED UNDER NATIONALIZATION (1947)



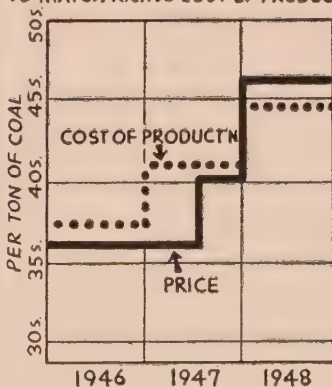
2. INCOME TO LABOR

WEEKLY EARNINGS



3. COST AND PRICE

PRICE HAS BEEN INCREASED TWICE TO MATCH RISING COST OF PRODUCTN



vice from consumers and workers, but in general labor was expected to look after itself through its unions and collective bargaining. The assumption was that the bad old days, when mining was not merely dark, damp, dirty, and dangerous, but also discordant, had gone. Good will between labor and management would now prevail. The miners, proud in their new freedom, would cooperate eagerly with the Board by raising their own production, and by welcoming steps toward greater efficiency.

The assumption has not proved fully valid. The miners have secured some of the things they expected—higher pay, shorter hours, and several other gains. They and their leaders can voice their wishes frankly and fully. The union's annual meeting in July 1948 was virtually a round-table discussion in which cabinet ministers and members of the Coal Board, as well as the miners' representatives, set forth their views.

UNION-MANAGEMENT CONFLICTS

That discussion made clear, however, that there was still a conflict between the interests of the miners and of the nation. The ministers and managers urged that the miners, having gained so much from nationalization, should be more willing to help make it a success. The union officials replied that the managers placed too much emphasis on production at the expense of labor. They asked for labor representation on all levels of management. But they could give no guarantee that their pledges of cooperation would be honored by the rank and file of their members, or that deep-rooted apathy, suspicion, and ignorance could be dispelled from the coal fields.

The labor problem has not been solved in the nationalized coal industries—or in any other kind of coal industry. Absenteeism is still high, and is not all due to old age or sickness. Output per man has not increased much, in spite of great extensions in the use of machinery. More tonnage was lost through strikes—authorized or wild-cat—in 1947 than in 1938. When the Coal Board

decided to close down an obsolete pit, the miners staged an underground "stay down" strike in protest. The introduction of foreign workers to relieve the grave manpower shortage, is banned by some union locals.

Meanwhile the output of coal, after an initial spurt, is standing still or declining. There is not enough for British industry, very little prospect of much for export, and a scarcity for domestic fireplaces. The price has risen twice since nationalization, thus raising costs to such other public enterprises as the railroads, the gas works and electricity plants, and the whole range of private industry. Yet the Coal Board's books showed a heavy financial loss for operations during 1947. The deficit amounted to nearly \$100,000,000, almost fifty cents on each ton of coal produced.

These untoward features may reveal themselves in other publicly operated fields. It is possible they may be removed (1) if the miners and others shoulder the responsibilities of nationalization in return for the benefits they have received; (2) if the problems of organization and administration can be solved; and (3) if the fantastic postwar boom in capital investment, prices, and wages can be deflated before it bursts and topples the world's economy over. Through three such impenetrable "ifs" it is impossible to glimpse any final verdict.

LAY THOSE BRICKBATS DOWN

In the previous pages an attempt has been made to explain why European democracies have become, in part, Socialist democracies. The hard facts of international stress and strain have linked us to those countries, and linked them to us. This is not because of any similarity in political faiths, but because of common national interests in security and survival in a divided world. Their strength is probably as necessary to us as ours is to them.

Since they have committed themselves to certain economic experiments, it is common sense that we hope they will succeed—or hope that if they fail the transition to a more promising way

of doing the jobs will not be too slow or painful. To criticize, lecture, or scold them is not merely bad manners, but worse international politics. Besides, their experiments may succeed. And finally our own house is made of glass which history suggests is not unbreakable.

AMERICAN POLICY TOWARD NATIONALIZATION

by Alvin Johnson

Peace is our paramount international interest: a stable peace under which we may occupy ourselves with our own problems, insured against outside interference. We need a peace so secure that we may not have to divert vast amounts of our resources to preparations for war, but may apply them to the development of education, housing, social security; to conservation of natural resources, the control of our rivers and a thousand other public purposes.

To be sure, we have other international interests. Our economy is meshed in with the economy of the rest of the world. To prosper best we need the products of many lands and the markets of many lands. Therefore the prosperity of other lands is also our concern.

Still another concern we feel and exhibit is solicitude for the welfare of humankind. We cannot live at ease with ourselves while children anywhere in the world are starving or perishing from disease. This is hypocrisy, the Communists say. They say we dump our help to postpone the evil day of the irremediable crash. The Communists are artists in hypocrisy but dunces in economics. We may take their judgment for what it is worth.

That we may live in peace and prosperity it is necessary for us that our friends, the peoples of western Europe, the Americas and

Australia, shall prosper and be strong. The great menace to peace is the ideological imperialism of the Communists. It is the most insidious menace that has ever faced us. By propaganda, intrigue, conspiracy, terrorism it makes progress in every land. Like a plague it makes most progress where the economic condition of the masses is hopeless.

According to Marxian theory a final depression to end all depressions and their cause, capitalism, must come sooner or later. The Russian Communists are convinced it is coming sooner. When this depression comes, millions will be without jobs and bread, ready to listen to Communist promises. The great object of Russian Communist foreign policy is to accelerate the progress toward depression, as it is our object to ward it off. Hence the ferocious Communist attacks on the Marshall Plan, our offensive against world depression.

BOOMERANG OR BENEFIT?

But there are worried Americans who ask whether we can be sure that our aid to western Europe may not boomerang against us, as, they say, our aid to Russia in the war proved a boomerang. Do we not see the nations we count on as friends turning more and more to the nationalization or collectivization of their economies? What is that, they ask, but a move in the direction of a Communist state?

And does not our aid support these nationalizing designs? Would the British Labor party now be in power if we had not loaned them billions to ward off national economic collapse? And could they continue to hold power if we did not extend to them the support of the Marshall Plan? With our support they have nationalized banking, telecommunications, much of transportation, coal, electric power, and plan to nationalize steel. Where will they stop, short of the completely socialized economy? And can such a state be differentiated from communism?

These are questions asked in good faith by many serious-minded Americans. They are also asked in bad faith by many American politicians who hope for the support of capitalists antagonistic to public enterprise anywhere. We need to examine more closely the relation between individualism and public enterprise.

By unremitting repetition of the word the Marxians have insinuated into the minds of even the most robustly conservative of us the conception of capitalism as the key to the economic system under which we live. Only dimly are we aware that there are large sectors of our life to which the term does not apply—the small merchants, workshop owners, small farmers, professional men of every sort, craftsmen and laborers organized well enough to defend their rights: indeed, the great majority of us. Large enterprise is of course capitalistic, and capital plays a powerful part in our national political life. It is ultimately subject to the public opinion of the democracy and is never free from the menace of control. Our democratic ideology has at its core individual freedom and self-help, a philosophy often perverted into one of license and “help-yourself”—to the public domain, to fat contracts, to monopoly profits, to subsidies and tariff favors.

Always the masses, permeated by the self-help ideology, have recognized that their position may be seriously menaced by the help-yourself ideologists. Throughout American history the masses have demanded, and in some measure secured, government control of key enterprises like transportation which, ruthlessly operated, might destroy the capacity for self-help of large classes of the population. Where regulation appears to be ineffectual, the demand for public ownership and operation becomes insistent. The demand for government provision of housing is so vigorous as to have converted even Senator Taft.

The help-yourself philosophy draws a clear line between functions that should be left in private hands and those that should be taken over by the government. All functions that will pay

substantial profits should be left to private enterprise; functions that will not pay profits may be taken over by the government—with due regard to the national budget.

The self-help philosophy draws no such definite line. Where private enterprise serves efficiently and without monopoly profiteering, let private enterprise alone. But where private enterprise proves incorrigibly monopolistic, or where it has grown old and stodgy, basing its claims on vested rights rather than on responsiveness to advancing technology and developing social needs, the time is ripe for nationalization or socialization.

Thus it appeared to most Englishmen that the coal industry, the nation's staff of life, had gone into senile decline. It has been nationalized. Whether government management will revive the industry remains to be seen—by Englishmen, who are bearing the risks.

DEMOCRACIES MORE CONFIDENT

We should not overlook the fact that the failure of nationalization is devoutly hoped for by the Russian Communists. They pronounce the British labor policy the most dangerous of all capitalistic policies, most apt to keep the masses from appreciating the beauties of communism. No less devoutly do our help-yourself philosophers desire the failure of nationalization abroad. For its success would put ideas into the heads of the American masses.

In our policy toward the countries that are nationalizing key industries we will do well to ignore the criticisms of Moscow and of our help-yourself ideologists. The British and French and Scandinavian nationalizers remain as individualistic and independent as ever they were. Indeed, they are more confident in their self-help programs than they were before. The British no longer have to depend for their coal on a magnificent Duke who refuses to mechanize so long as dividends keep up. They can look to an Authority set up by the government, over which they have control, and which will drop behind the technological times only at the risk of its tenure.

But even if we were convinced, on sound economic grounds, that the policies of our European friends were mistaken, it would be a shocking invasion of their sovereignty for us to apply any pressure whatsoever to make them mend their ways. Imagine a foreign power using pressure to make us turn our New York subways back into private hands. That would be no way to make friends and influence Americans.

All the world knows that in many countries, particularly in Italy, the land system of great absentee landlords and miserable sharecroppers lays the country wide open to Communist propaganda. The huge Communist following of Togliatti consisted mainly of peasants suffering under age-old grievances. We are trying to help Italy to her feet, under the Marshall Plan. Would anyone propose land reform as a condition of our aid? The problem is one for Italy to solve.

Sooner or later we shall have to learn how to live even with Russia and her satellites. Our statesmen recognize that substantial European recovery depends upon the restoration of trading relations between West and East. Western Europe needs eastern meat and bread, eastern Europe needs an immense variety of industrial products. Conflicting ideologies cannot cancel out the benefits of such exchange of goods.

Should we apply pressure to get our European friends to make political conditions before agreeing to trade? The idea is absurd. It is true that such trade will inevitably improve the economic position of Russia and her satellite states. But it will also improve the economic position of western Europe.

If the West-East trade heightens the offensive potential of the Communists, it also heightens the resistance potential of the anti-Communists.

But we need not be too certain that Communist potential will gain through economic recovery. At the present time all is not quiet behind the Iron Curtain. Finland, Poland, and Yugoslavia have all refused to nationalize the land and collectivize the peasants. In the peasants those countries are harboring a huge

class in which the self-help ideology occupies the psychological depths, the Communist ideology only the surface. How will better prices for their products, better commodities for their money affect them?

For good reasons the Communists detest our aid to Europe. For better reasons we give aid, knowing that we are advancing the interests of peace and of the prosperity of the world, so long as we remain clean of even a suspicion of political intervention.

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FOREIGN POLICY ASSOCIATION

The November issue

AMERICAN INTERESTS
IN THE MIDDLE EAST

by Harvey P. Hall